

## ANNEX A

### EMPLOYEE BENEFITS MATTERS

MCI and BT agree to the following with respect to the compensation and benefits programs of MCI and its Subsidiaries:

1. *Executive Severance Program.* Effective as of the date of this Agreement, MCI shall establish an executive severance program (the "Executive Severance Program") for the benefit of approximately 20 of its senior executive officers (other than those eight individuals who are entering into Employment Agreements) (the "Covered Executives"). The Executive Severance Program shall have the terms and conditions set forth in Exhibit A to this Annex A.
2. *Retention Bonuses for Senior Executives.* Effective as of the date of this Agreement, MCI shall establish a retention bonus program (the "Executive Retention Program") for the benefit of up to 80 key executives (including those 8 executives who are entering into Employment Agreements and each of the Covered Executives). The Executive Retention Program shall provide for the granting of retention bonuses in the form of incentive stock units of MCI ("Senior Retention ISUs") entitling the holders to receive up to 3,035,000 shares of MCI Common Stock in the aggregate. The Senior Retention ISUs shall otherwise have the terms and conditions specified in Annex B to this Agreement.
3. *Retention Bonuses for Management Employees.* Effective as of the date of this Agreement, MCI shall establish a retention bonus program (the "Management Employee Bonus Program") for the benefit of up to 150 of its management employees who do not participate in the Executive Retention Program. The Management Employee Bonus Program shall provide for the payment of cash bonuses, as follows: each participant shall receive, as promptly as practicable after the Effective Time, a cash bonus in an amount equal to 50% of such management employee's base salary as of the Effective Time. Each such participant shall receive a second cash bonus as of the first anniversary of the Effective Time in an amount equal to 50% of such employee's base salary. Such bonuses will not be payable to any participant whose employment terminates for any reason other than a termination by MCI without "cause" (as defined in Exhibit B to this Annex A ("Exhibit B")) on or prior to the applicable payment date.
4. *Retention Bonuses for Other Employees.* Effective as of the date of this Agreement, MCI shall establish a retention bonus program (the "Other Employee Bonus Program") for the benefit of up to 200 of its management employees who do not participate in the Executive Retention Program or the Management Employee Bonus Program. The Other Employee Bonus Program shall provide for the payment

of cash bonuses as follows: each participant shall receive, as promptly as practicable after the Effective Time, a cash bonus in an amount equal to 25% of such participant's base salary as of the Effective Time. Each such participant shall receive a second cash bonus as of the first anniversary of the Effective Time in an amount equal to 25% of such employee's base salary. Such bonuses will not be payable to any participant whose employment terminates for any reason other than a termination by MCI without "cause" (as defined in Exhibit B) on or prior to the applicable payment date.

5. *Discretionary Retention Bonus Pool.* Effective as of the date of this Agreement, MCI shall establish, in consultation with BT, a discretionary retention bonus pool (the "Retention Bonus Pool") in a budgeted amount of up to \$100 million, to be utilized for purposes of retaining and incentivizing key employees (other than those 8 individuals who are entering into Employment Agreements, and it being understood that it is intended that the Covered Executives generally will not be eligible to participate). The Retention Bonus Pool shall be awarded to participating key employees as follows: (i) up to  $\frac{1}{3}$  shall be awarded during the period commencing as of the date of this Agreement and ending as of the Effective Time, (ii) up to  $\frac{1}{3}$  shall be awarded during the one-year period commencing as of the Effective Time and (iii) up to  $\frac{1}{3}$  shall be awarded during the one-year period commencing as of the first anniversary of the Effective Time; *provided, however*, that the allocation of the Retention Bonus Pool among such periods may be altered if necessary to reflect MCI's business needs.

6. *1997 and 1998 ISUs.* During 1997, MCI shall grant incentive stock units of MCI (the "1997 ISUs") in accordance with the incentive program in effect prior to the date of this Agreement (the "1996 Program"), and with an aggregate value (determined as of the date of grant) of approximately \$30 million. The 1997 ISUs shall have the terms and conditions specified in Annex B to this Agreement. It is understood that it is the intention of MCI to put into effect a short-term incentive compensation program in 1997 comparable to the 1996 Program, under which awards may be payable in the form of incentive stock units of MCI. Any such incentive stock units shall have terms consistent with the 1997 ISUs, and shall be awarded by MCI in consultation with BT.

7. *1997 Options.* During 1997, MCI shall grant, pursuant to MCI's Stock Option Plan, options to purchase up to an aggregate of 14 million shares of MCI Common Stock (the "1997 Options") to approximately 7,000 employees of MCI. The 1997 Options shall vest in equal annual installments on each of the first three anniversaries of the date of grant; *provided, however*, that the unvested portion of an optionee's 1997 Options shall become fully vested in the event that the employment of such optionee is terminated without "cause" (as defined in Exhibit B). All 1997 Options that are outstanding as of the Effective Time shall be treated in the manner specified in Section 5.8(b) of the Agreement.

8. *MCI 1990 Stock Purchase Plan.* MCI shall take such actions as are necessary to cause any Offer (as such term is used in the MCI 1990 Stock Purchase Plan (the "ESPP")) to expire as of the last trading day on which the MCI Common Stock is quoted on the NASDAQ National Market immediately prior to the Effective Time (the Purchase Date"); *provided, however,* that such change shall be conditioned upon the consummation of the Merger. On the Purchase Date, MCI shall apply the funds credited as of such date under the ESPP within each participant's payroll withholdings account to the purchase of whole shares of MCI Common Stock in accordance with the terms of the ESPP, and shall return any residual cash.

9. *Establishment of Compensation and Benefits Programs.* Following the date of this Agreement, BT and MCI shall undertake a review of the compensation and benefits programs for employees of MCI and its Subsidiaries, and shall cooperate to determine the compensation and benefits programs that will be implemented for employees of MCI and its Subsidiaries as of and following the Effective Time. It is the intention of the parties to work together to establish new long and short-term incentive compensation and other employee benefit programs for employees of MCI and its Subsidiaries as of the Effective Time. Such programs are intended to be competitive within the industry and the locales in which MCI conducts its business, and, with respect to long and short-term incentive compensation programs, to reflect (subject to applicable requirements) the important role that equity-based compensation arrangements have played in the overall compensation philosophy of MCI. Such programs shall provide, through the second anniversary of the date of this Agreement, a level of benefits that is comparable in the aggregate to that provided under the MCI Benefit Plans as in effect immediately prior to the date of this Agreement. BT and MCI will discuss in general terms the approach that will be taken with respect to MCI's compensation and benefits programs (including any compensation and benefits programs to be adopted prior to the Effective Time), and the manner in which such programs will be implemented in practice. Notwithstanding the foregoing, to the extent that the existing MCI Benefit Plans, including the ESPP, have not been replaced by new compensation and benefits programs as of the Effective Time, such MCI Benefit Plans will continue in effect until such replacement programs have been finalized or, if earlier, the second anniversary of the date of this Agreement; *provided, however,* that changes may be made to any such MCI Benefit Plans that continue in effect to reflect applicable requirements.

10. *Employment Agreements and Retention Arrangements.* From and after the Effective Time, BT shall honor, and shall cause the Surviving Corporation to honor in accordance with their terms, all employment agreements and retention arrangements with current and former employees of MCI and its Subsidiaries, to the extent such agreements and arrangements are to be entered into or adopted by MCI pursuant to Section 5.9(a) of the Agreement or this Annex A.

***Exhibit A to Annex A***

## EXECUTIVE SEVERANCE POLICY

### INTRODUCTION

MCI Communication Corporation (the "Company"), a Delaware corporation, and British Telecommunications plc intend to effect a merger (the "Merger") pursuant to the Agreement and Plan of Merger dated as of November 2, 1996. In order to induce Executive to continue to serve as an executive officer of the Company during the period prior to the Merger and thereafter, the Company desires to provide Executive with certain protections on the terms and conditions set forth in this Executive Severance Policy (the "Policy");

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1. Term. The term of this Policy shall commence on November 2, 1996 and shall terminate on December 31, 1999. (the "Termination Date").

2. Termination of Employment.

2.1 Compensation Upon Termination of Employment. (a) If, prior to the Termination Date, the Executive's employment shall be terminated by the Company for any reason other than (i) the Executive's Disability or (ii) for Cause, or if during the term hereof, the Executive terminates Executive's employment for Good Reason, the Company shall pay or cause to be paid to the Executive an amount equal to two times the sum of (x) Executive's annual base salary as in effect on the date of termination (without regard to any decrease in Base Salary which could constitute Good Reason under this Policy) ("Base Salary") and (y) the greater of (A) the average annual bonus paid to or accrued for the Executive by the Company in respect of the three calendar years preceding the termination of employment and (B) the annual bonus paid to or accrued in respect of 1995. Such cash amounts shall be paid as follows: the amount attributable to Base Salary shall be paid in a lump sum within 10

business days following the termination of Executive's employment; provided, however, that if Executive terminates his or her employment for Good Reason such amount shall be payable over a six-month period in equal installments in accordance with the ordinary payroll practices of the Company, but no less frequently than monthly, and the amount attributable to the annual bonus shall be paid in a lump sum within 10 business days following the termination of Executive's employment.

In addition, Executive shall receive (i) the unpaid portion of Executive's Base Salary accrued to the date of termination, and any accrued vacation as of the date of termination; (ii) the unpaid portion of Executive's annual bonus accrued with respect to the last full fiscal year of the Company ended prior to the date of termination, at such time as such bonus would otherwise be payable; (iii) continued medical, dental and life insurance coverage for Executive and Executive's eligible dependents on the same basis as in effect immediately prior to Executive's termination of employment (without regard to any decreases in such benefits which would constitute "Good Reason" under this Policy) until the earlier of (A) 24 months after the Executive's termination of employment or (B) the commencement of coverage with a subsequent employer, but only to the extent such coverage duplicates or exceeds the coverage provided by the Company; provided, however, that with respect to any such continued coverage, the Consolidated Omnibus Budget and Reconciliation Act of 1985 coverage period shall not run during the period of continued coverage; (iv) unless otherwise expressly elected by Executive prior to such termination and as provided in (vi) below, payment, in a cash lump sum, of all amounts deferred by Executive under any non-qualified plan of deferred compensation maintained by the Company (notwithstanding the payment provisions of any such plan to the contrary); (v) full acceleration of vesting and exercisability

of any equity-based awards granted to the Executive prior to Executive's termination of employment and (vi) 24 months of age and service credit for all purposes under all defined benefit plans of the Company; provided, however, that to the extent any increase in benefits which would result from such additional age and service credits cannot be paid under the terms of any plan, the amount of such increase shall be calculated under the terms of each such plan and paid directly by the Company in the same form and at the same time that the benefits under each such plan would otherwise be paid. Payments required hereunder shall be made within 10 business days following the termination of the Executive's employment except as otherwise provided in this Section 2.1.

(b) In the event of the termination of the Executive's employment prior to the Termination Date due to executive's death or Disability, the Company shall pay to the Executive (or Executive's beneficiaries, if applicable) a lump sum cash amount equal to (i) the annual rate of Executive's Base Salary as in effect on the date of termination and (ii) the highest bonus paid to Executive under the Company's annual bonus plan during the three fiscal years preceding the termination of employment. In addition, Executive shall receive (i) the unpaid portion of Executive's Base Salary accrued to the date of termination, and any accrued vacation as of the date of termination; (ii) the unpaid portion of Executive's annual bonus accrued with respect to the last full fiscal year of the Company ended prior to the date of termination, at such time as bonus would otherwise be payable; and (iii) unless otherwise expressly elected by Executive prior to such termination, payment, in a cash lump sum, of all amounts deferred by Executive under any non-qualified plan of deferred compensation (other than a defined benefit plan) maintained by the Company (notwithstanding the payment provisions of any such plans to the contrary). Payments required hereunder shall be made

within 10 business days following the termination of the Executive's employment except as otherwise provided in this Section 2.1.

(c) If the Executive's employment is terminated by the Company for Cause or if the Executive resigns from Executive's employment without Good Reason, the Executive shall be entitled to receive: (i) any Base Salary accrued through the date of such resignation or termination and any accrued vacation as of the date of termination; and (ii) the unpaid portion of any annual bonus accrued in respect of any fiscal year of the Company preceding the year of termination or resignation when such bonus would otherwise be payable.

(d) In the event of any termination of employment hereunder, the Executive shall also receive, when due, any other compensation or benefit payable to the Executive under any plan, program or arrangement maintained by the Company, other than a severance plan or arrangement.

2.2 Definitions. For purposes of this Policy, the following definitions shall apply:

(a) Disability. "Disability" shall mean the Executive's absence from the full-time performance of the Executive's duties for a period of 180 consecutive days as a result of Executive's incapacity due to physical or mental illness.

(b) Cause. For purposes of this Policy, "Cause" shall mean:

(1) a deliberate and material act or omission by the Executive with respect to Executive's duties and responsibilities with the Company that results in material harm to the Company (provided, that a financial harm of \$500,000 shall be deemed to be "material"), which act or omission is (A) either the product of willful malfeasance or gross neglect, (B) committed in bad faith or without reasonable belief that such act

or omission is in, or not contrary to, the best interests of the Company and (C) not remedied within 30 days after receipt of written notice from the Company specifying such breach,

(2) Executive's willful and material breach of the provisions of Section 8 of this Policy which is not remedied within 30 days after receipt of written notice from the Company specifying such breach; or

(3) Executive's plea of guilty or nolo contendere to, or nonappealable conviction of, a felony, which conviction or plea causes material damage to the reputation or financial position of the Company.

(c) Good Reason. For purposes of this Policy, "Good Reason" shall mean the occurrence of any of the following without the Executive's express written consent:

(1) The assignment to the Executive, after the Merger, of any duties inconsistent with the Executive's positions, duties, responsibilities and status with the Company and its subsidiaries immediately prior to the Merger; a change in the Executive's reporting responsibilities, title or offices that is adverse to the Executive or any removal of the Executive from or failure to re-elect the Executive to any position with the Company or its subsidiaries except in connection with the Executive's promotion or a termination of employment for Cause; provided, that no change in Executive's responsibilities that occurs as a result of the Company no longer being a public company or becoming a subsidiary after the Merger shall constitute Good Reason hereunder.

(2) A reduction in the Executive's Base Salary, target annual bonus or long-term incentive compensation in effect at the time of the Merger, as such salary, bonus or compensation may be increased from time to time thereafter;

(3) The failure to continue in effect any employee benefit plan or compensation plan in which the Executive participates prior to the Merger unless the Executive is provided with participation in other plans that provide substantially comparable benefits in the aggregate to the Executive; or the taking of any action that would substantially reduce the Executive's benefits in the aggregate; and

(4) After the Merger, any relocation of Executive's principal place of business on the effective date of the Policy to a location in excess of 20 miles from such work location immediately prior to the Merger;

provided, however, that an event specified in (1), (2) or (3) shall not constitute "Good Reason" if it is remedied within 30 days after receipt of written notice from Executive specifying such event.

2.3 Gross Up. (a) In the event it shall be determined that any payment, benefit or distribution (or combination thereof) by the Company or one or more trusts established by the Company for the benefit of its employees, to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Policy, or under the terms of any other plan, program agreement or arrangement) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, hereinafter collectively referred to as the "Excise Tax"), Executive shall be entitled to receive an additional payment (a "Gross-Up

Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and the Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 2.3(c), all determinations required to be made under this Section 2.3, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized certified public accounting firm as may be designated by the Company (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment shall be paid by the Company to Executive within five (5) days after the receipt of the Accounting Firm's determination.

(c) As soon as practicable, Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. If the Company notifies Executive in writing that it desires to contest such claim, Executive shall cooperate in all reasonable ways with the Company in such contest and the Company shall be entitled to participate in all proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with

such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 2.3, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis, and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that if Executive is required to extend the statute of limitations to enable the Company to contest such claim, Executive may limit this extension solely to such contested amount. The Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive

shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

3. Obligations Absolute; No Mitigation. (a) Except as provided in Section 8(d), the obligations of the Company to make the payments to, or other arrangements with respect to, the Executive provided for herein shall be absolute and unconditional and shall not be reduced by any circumstances, including without limitation any setoff, counterclaim, recoupment, defense or other right which the Company may have against the Executive or any third party at any time.

(b) Executive shall not be required to mitigate damages or the amount of any payment provided for under this Policy by seeking other employment or otherwise. No amounts paid to or earned by the Executive following his termination of employment with the Company shall reduce or be set off against any amounts payable to the Executive under this Policy.

4. No Effect On Other Rights. The provisions of this Policy, and any payment provided for herein, shall not supersede or in any way limit the rights, benefits, duties or obligations which the Executive may now or in the future have under any benefit, incentive or other plan or arrangement of the Company or any other agreement with the Company; provided, however, that the Executive shall not be eligible to receive severance benefits under the Company's regular severance plan during the term of this Policy.

5. Dispute Resolution. Any dispute or controversy arising under or in connection with this Policy shall be resolved exclusively by arbitration in Washington D.C. in accordance with the Rules of the American Arbitration Association then in effect. Judgment

may be entered on an arbitrator's award relating to this Policy in any court having jurisdiction.

6. Legal Fees. The Company shall pay all costs and expenses, including attorney's fees and disbursements of Executive in connection with any arbitration whether or not instituted by the Company or Executive, relating to the interpretation or enforcement of any provision of this Policy, if Executive prevails in such arbitration on any substantive issue.

7. Assignment. Neither this Policy nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession) or by the Company, except that the Company must assign this Policy to any successor (whether by merger, purchase or otherwise) to all or substantially all of the assets or businesses of the Company, and shall require such successor to assume expressly the obligations of the Company hereunder.

8. Nondisclosure of Confidential Information: Non-Competition. (a) Executive may not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity any Confidential Information pertaining to the business of the Company or any of its affiliates, except (i) while employed by the Company, in the business of and for the benefit of the Company, (ii) when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information or (iii) to Executive's counsel. For purposes of this Section 8(a), "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product

development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information of the Company and its affiliates (the "Restricted Group") or customers, that, in any case, is not otherwise available to the public (other than by Executive's breach of the terms hereof).

(b) During the period of Executive's employment hereunder, and in the event the Executive terminates his or her employment for Good Reason, for six months thereafter, Executive may not (A) directly or indirectly, either as principal, manager, agent, consultant, officer, stockholder, partner, investor, lender or employee or in any other capacity, carry on, be engaged in or have any financial interest in, any business which is in competition with the business of the Company or any other member of the Restricted Group with which Executive has been principally employed during the term of this Policy (an "Applicable Group Member") and (B) on Executive's own behalf or on behalf of any person, firm or company, other than the Restricted Group, solicit or offer employment to any person who has been employed by the Restricted Group at any time during the 12 months immediately preceding such solicitation.

(c) For purposes of this Section 8, a business shall be deemed to be in competition with the Company or Applicable Group Member if it is principally involved in the purchase, sale or other dealing in any property or the rendering of any service purchased, sold, dealt in or rendered by the Company or Applicable Group Member as a material part of the business of the Company or Applicable Group Member within the same geographic area in which the Company or Applicable Group Member makes such purchases, sales or dealings or renders such services. Nothing in this Section 8 shall be construed so as to preclude Executive from investing in any publicly or privately held company, provided Executive's

beneficial ownership of any class of such company's securities does not exceed 1% of the outstanding securities of such class.

(d) In the event the Executive engages in conduct which is proscribed by the terms of Section 8(a) or (b) of this Policy, the Company may, in addition to pursuing any other remedies it may have in law or in equity, cease providing any severance payments or benefits otherwise due under the terms of this Policy.

9. Beneficiaries; References. Executive shall be entitled to select (and change, to the extent permitted under any applicable law) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following Executive's death, and may change such election, in either case by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Policy to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative. Any reference to the masculine gender in this Policy shall include, where appropriate, the feminine.

10. Separability. If any provision of this Policy shall be declared to be invalid or unenforceable, in whole or in part, such invalidity or unenforceability shall not affect the remaining provisions hereof which shall remain in full force and effect.

11. Governing Law. This Policy shall be construed, interpreted and governed in accordance with the laws of the State of New York, without reference to rules relating to conflicts of law.

12. Withholding. The Company shall be entitled to withhold from payment any amount of withholding required by law.

13. Amendment. This Policy may not be amended or in any way modified or terminated on or after the date of the Merger.

November 2, 1996

For purposes of Annexes A and B to the Merger Agreement, the following terms are defined as set forth below:

ISU Holders.

Cause.

For purposes of the Converted ISUs and the 1997 ISUs, "Cause" shall mean (i) "Cause" as defined in the participant's employment agreement, or if applicable to such participant, the Executive Severance Program, and (ii) with respect to any other participant,:

- (a) a deliberate and material act or omission by the participant with respect to the participant's duties and responsibilities with MCI that results in demonstrable harm to MCI, which act or omission is (A) either the product of willful malfeasance or gross neglect, (B) committed in bad faith or without reasonable belief that such act or omission is in, or not contrary to, the best interests of MCI and (C) not remedied within 30 days after receipt of written notice from MCI specifying such breach, or
- (b) the participant's plea of guilty or nolo contendere to, or nonappealable conviction of, a felony, which conviction or plea causes material damage to the reputation or financial position of MCI.

Constructive Discharge.

For purposes of the Converted ISUs and the 1997 ISUs, "Constructive Discharge" shall mean (i) "good reason" as defined in the participant's employment agreement or, if applicable to such participant, the Executive Severance Program, and (ii) with respect to any other participant, the occurrence of any of the following without the participant's express written consent:

- (a) The assignment to the participant of any duties materially inconsistent with the participant's current position, duties or responsibilities with MCI and its subsidiaries to the detriment of the participant, provided that no change in the participant's position, duties or responsibilities that occurs as a result of MCI no longer being a public company or becoming a subsidiary after the Merger shall constitute Constructive Discharge hereunder; or

- (b) A material reduction in the sum of the participant's base salary, target annual bonus and long-term incentive, as such salary and incentive may be increased from time to time;

provided, however, that an event specified in (a) or (b) above shall not constitute "Constructive Discharge" if it is remedied within 30 days after receipt of written notice from the participant specifying such event.

Optionholders: Management Employee Bonus Program and Other Employee Bonus Program.

With respect to options held by employees of MCI not holding Converted ISUs or 1997 ISUs (and bonuses to be paid to employees of MCI under the Management Employee Bonus Program and Other Employee Bonus Program), the concept of Constructive Discharge shall not apply and the definition of "Cause" set forth below shall apply.

Cause. "Cause" shall mean:

- (1) a failure by the employee to perform his or her employment duties and responsibilities with MCI; or
- (2) the employee's plea of guilty or nolo contendere to, or nonappealable conviction of, a felony.

## ANNEX B

### SUMMARY OF TERMS AND CONDITIONS OF SENIOR RETENTION ISUs, 1997 ISUs AND CONVERTED ISUs TO BE GRANTED PURSUANT TO THIS AGREEMENT AND ANNEX A HERETO

#### 1. In General

- All MCI ISUs will be granted pursuant to the MCI 1989 Stock Option Plan.
- Each MCI ISU will entitle the holder to receive an unrestricted, fully transferable share of MCI Common Stock as of the applicable payment date specified in the award agreement, or cash in the event the ISU is deferred by the holder and diversified into fixed income or equity investments offered by MCI.
- MCI ISU's will vest on the terms and conditions described below.
- In the event of a termination of the holder's employment for any reason, any MCI ISUs that have not previously vested (and which do not vest by reason of such termination, as described below) will be forfeited and cancelled.
- MCI ISUs will not be transferable other than by will or the laws of descent and distribution.
- The Cash Consideration that would have been paid to a holder of an MCI ISU pursuant to Section 5.8(e) of this Agreement shall, at the election of the holder, be credited to an account providing for deferral into certain equity or fixed income investments offered by MCI.
- Payment in respect of an MCI ISU will be subject to applicable withholding taxes.
- All MCI ISUs that remain outstanding as of the Effective Time will be treated in the manner specified in Section 5.8(e) of this Agreement.

#### 2. Converted ISUs

- Each Converted ISU will vest in accordance with the original vesting schedule for the related MCI Restricted Share; provided, however, that each such Converted ISU will become 100% vested on the third anniversary of the date of this Agreement.

- Upon a termination of the holder's employment, the unvested portion of such holder's Converted ISUs will only be forfeited in the event that such termination is for "cause," or such holder's resignation is not due to "constructive discharge" (as such terms are defined in Exhibit B); each such Converted ISU would fully vest upon any other termination of employment (including death or disability).
- Each Converted ISU will provide for the payment, deferral or reinvestment, at the holder's election pursuant to a program established by MCI prior to the Effective Time, of dividend equivalents equal to the amount of any dividends that would have been paid to the holder thereof following the Effective Time had the BT ADSs underlying such Converted ISUs been issued and outstanding on the applicable dividend record date.

3. Senior Retention ISUs

- Each Senior Retention ISU will vest over three years:  $\frac{1}{3}$  as of the Effective Time,  $\frac{1}{3}$  on the first anniversary of the Effective Time and  $\frac{1}{3}$  on the second anniversary of the Effective Time.

4. 1997 ISUs

- Each 1997 ISU will vest in equal annual installments on each of the first three anniversaries of the date of grant.
- Upon a termination of the holder's employment, the unvested portion of such holder's 1997 ISUs will only be forfeited in the event that such termination is for "cause," or if such holder's resignation is not due to "constructive discharge" (as such terms are defined in Exhibit B); each such 1997 ISU would fully vest upon any other termination of employment (including death or disability).
- Each 1997 ISU will provide for the payment, deferral or reinvestment, at the holder's election pursuant to a program established by MCI prior to the Effective Time, of dividend equivalents equal to the amount of any dividends that would have been paid to the holder thereof following the Effective Time had the BT ADSs underlying such 1997 ISUs been issued and outstanding on the applicable dividend record date.



**VOLUME THREE, SECTION E**

**THE ARTICLES OF INCORPORATION**

Attached are the certified Articles of Incorporation for British Telecommunications plc (“Articles of Incorporation”). After consummation of this transaction, the Articles of Incorporation will be amended to reflect the corporate name change from “British Telecommunications plc” to “Concert plc.” Subsequent to the above amendment, Concert plc will submit to the Commission a certified copy of the Articles of Incorporation, as amended.

CERTIFIED A TRUE AND  
COMPLETE COPY



S. J. PRIOR  
ASSISTANT SECRETARY

**Memorandum**  
AND  
**Articles of Association**  
OF  
BRITISH TELECOMMUNICATIONS  
public limited company

Memorandum of Association amended on 24th July 1984

Articles of Association adopted by Special  
Resolution on 30th July 1992 and  
amended on 28th July 1994  
and 27th July 1995

Company No. 1800000

THE COMPANIES ACT 1985  
as amended

Public Company Limited by Shares

## Special Resolution

of

BRITISH TELECOMMUNICATIONS public limited company

Passed 18 July 1996

At the Annual General Meeting of BRITISH TELECOMMUNICATIONS public limited company duly convened and held on Thursday 18 July 1996 the following resolution was duly passed as a Special Resolution:-

### SPECIAL RESOLUTION

THAT the authority and power conferred on the directors by Article 5 of the Company's articles of association be renewed until 17 October 1997 and for such period:

- (a) the Section 80 Amount shall be £519,120,000; and
- (b) the Section 89 Amount shall be £78,650,000.

C. H. GREEN  
*Secretary and Chief Legal Adviser*